


MEMORANDUM

January 28, 2015

TO: Government Operations and Fiscal Policy Committee

FROM: Jacob Sesker, Senior Legislative Analyst 

SUBJECT: **Worksession:** Spending Affordability Guidelines for the FY16 Operating Budget

Introduction

On January 27, the County Council held a public hearing on the spending affordability guidelines for the FY16 operating budget. Council action is scheduled for February 10. The deadline for the Council to adopt the guidelines is the second Tuesday in February, which falls this year on February 10.¹

Under the County Charter and Code², the Council must set three spending affordability guidelines for the FY16 operating budgets:

1. Ceiling on property tax revenues
2. Ceiling on the aggregate operating budget (AOB)
3. Allocation of that AOB

In recent years, Council practice has been to concurrently establish a spending target for community grants as part of the spending affordability process. That portion of this memo was prepared by Joan Schaffer, Council Grants Manager.

¹ Under current law, the deadline for the Council to act is the second Tuesday in February—this year February 10th. The Council may not amend the spending affordability guidelines once adopted. Before FY10, the Council was required to set the guidelines in December and could amend the guidelines in April. On September 16, 2008, the Council unanimously approved Bill 28-89, which made significant changes to the Council's process related to the guidelines. To wit, Bill 28-89 specified that the Council must set the guidelines no later than the second Tuesday in February and that the guidelines could not thereafter be amended.

² On November 6, 1990, the voters amended the Charter to add to §305 the requirement that "The Council shall annually adopt spending affordability guidelines for the capital and operating budgets, including guidelines for the aggregate capital and aggregate operating budgets. The Council shall by law establish the process and criteria for adopting spending affordability guidelines." The resulting law is in §20-59 through §20-63 of the Code.

Testimony

At the January 27 public hearing, the Council received testimony from Patricia O'Neill, President of the Montgomery County Board of Education. *See* © 1-2. In her testimony, she states that the budget includes an increase of \$103.6 million versus FY15 to “fund the same level of services for the projected growth in the number of students, as well as previously negotiated agreements, rising costs in operations, and strategic enhancements.” The Board of Education will take action on the Superintendent’s budget on February 10. Ms. O’Neill’s testimony highlights several budget assumptions that she believes should be reflected in the Council’s agency allocation to MCPS as part of the spending affordability process. Council Staff’s discussion of agency allocations begins on page 7.

Factors

Under §20-61 of the Code, the Council should consider several factors when adopting its guidelines. Those factors are the condition of the economy; the level of economic activity in the County; trends in personal income; and the impact of economic and population growth on projected revenues.³

1. Condition of the economy

- In the 2nd quarter of 2007, the unemployment rate for the Washington D.C. metro area was 2.9%. By the 4th quarter of 2009, the rate had risen to 6.7%. The current metro unemployment rate is 5.0%.
- Montgomery County’s unemployment rate peaked at 6.2% in January 2010 and was 4.1% in November 2014, with an annual average unemployment rate of 4.5% for 2014.⁴
- While the 2014 unemployment rate is an improvement over 2013, the number of employed County residents has remained more or less unchanged for three years.
- The Washington metro area’s countercyclical economy—the envy of all metro areas during times of recession—has not fared as well as most other metro areas since the national economic recovery began. The gap between regional and national unemployment rates has narrowed, and gross regional output is roughly where it was in early 2011. According to Brookings’ *Metro Monitor*, the metro area’s recovery ranks 70th out of 100 metro areas for jobs, 97th for unemployment rate, and 81st for gross output of the metro economy.
- In the 2nd Quarter of 2014, per the Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (QCEW), Montgomery County ranked 222nd of the 340 largest counties in the nation for employment changes and 313th for changes in the average weekly wage.

³ Under §20-61(b), the Finance Director must, “each January, and at other times as necessary, consult with independent experts, who need not be County residents, from major sectors of the County economy. The experts should advise on trends in economic activity in the County and how activity in each sector of the economy may affect County revenues. The Director must report the experts’ views, if any are received, to the Executive and Council.” In recent years, the Business Advisory Panel has met in February, and the results of that meeting have been transmitted to the Council in March. This practice should change for FY16 to ensure future compliance with §20-61(b).

⁴ For context, the unemployment rate was just 2.6% in 2007 and had not been above 4.0% for two decades prior to the recession.

2. Level of economic activity in the County

- According to the Bureau of Labor Statistics, inflation for urban consumers in the Washington-Baltimore area over the 12-month period ending with November of 2014 was only 1.15%. The average monthly increase from December 2013 through November 2014 was 1.65%.
- Federal procurement in the region has declined significantly over the past few years (down 16.1% below the 2010 level). Federal and state budgets are tight, and both could continue to negatively affect area jurisdictions in the near term.
- Montgomery County sales of existing homes declined somewhat from 2013 to 2014, and existing home sales are at 2007 levels. See © 14. After a strong start to 2014, median sales prices of existing homes were flat in 2014, in spite of the fact that interest rates on 30-year fixed rate mortgages fell by more than 0.50%.
- By the end of 2014, median sales prices remained just slightly higher than median sales prices in 2008. See © 14. According to the Center for Regional Analysis, median sales prices in Montgomery County fell 1.0% from November 2013 to November 2014 compared to +1.3% for the metro area.
- Class A office rents average \$30.16, below the 5-year average of \$31.52. The Class A office vacancy rate is 15.0% (5,510,442 vacant square feet).
- The Class B office vacancy rate is 15.7%, with negative absorption over the past 12 months (-327,239 square feet).

3. Trends in personal income

- Finance estimates that personal income will increase by 2.3% in calendar year 2014, with wage and salary income increasing by 1.9%.
- Both per capita income and average household income fell slightly in 2013, but are expected to be positive in 2014. Per capita wage and salary income for calendar year 2014 is expected to be +0.2% as compared to per capita wage and salary income for 2013.

4. Impact of economic and population growth on projected revenues

- Population increased 1.2% and households increased 1.0% in 2013. In contrast, resident employment increased only 0.2% and payroll employment increased 0.1%. Per capita personal income fell 0.3%, while average household income fell 0.1% in 2013.
- For 2014, population is estimated to increase 0.1% and households increased 1.7%. As in 2013, resident employment in 2014 is estimated to increase by only 0.2%. Per capita personal income is estimated to increase by 2.2% in 2014, with average household income increasing by 0.6%.
- Population, household, and resident employment affect income tax receipts and transfer/recording tax receipts. While other factors affect both revenue streams (e.g., stock market fluctuations affect income tax receipts; interest rates affect transfer/recording tax receipts), slowing growth could place downward pressure on those revenues.

Spending Affordability Guidelines for the FY16 Operating Budget

1. Ceiling on property tax revenue.

(a) Background

Under §305 of the Charter, nine affirmative votes are required to set the property tax rates in May/June if the amount of property tax revenue from existing real property exceeds the previous year's tax by more than the rate of inflation. "Charter limit" is a term that is frequently used to mean the maximum amount of property tax revenue the Council can approve without requiring nine affirmative votes.

The limit applies only to property tax revenue from existing real property. "This limit does not apply to revenue from: (1) newly constructed property, (2) newly rezoned property, (3) property that, because of a change in state law, is assessed differently than it was assessed in the previous tax year, (4) property that has undergone a change in use, and (5) any development district tax used to fund capital improvement projects." Finally, the limit applies to revenue from taxes on real property only and does not apply to revenue from taxes on personal property.

Note that it is the amount of real property tax revenue from existing real property, not the property tax rate, which cannot increase by more than the rate of inflation. Interestingly, there is no single "Charter limit" number—the maximum amount of property tax revenue that can be raised without affirmative votes of nine Councilmembers varies, depending upon the specific combination of rate increases and credits that the Council chooses during its deliberations in May.⁵

(b) Recommendation

Staff recommends setting property tax revenue at the Charter limit, consistent with the approved fiscal plan. The Council adopted the County's Tax Supported Fiscal Plan Summary for the FY15-20 Public Services Program (Resolution 17-1137) on June 27, 2014. See ©2-5. For FY15, the Council set property tax revenue at the Charter limit with a \$692 income tax offset credit. The approved fiscal plan assumes property tax revenue at the Charter limit in FY15-20.

2. Ceiling on the aggregate operating budget.

(a) Background

The aggregate operating budget (AOB) is defined as total appropriation from current operating revenues for the next fiscal year, **including** current revenue funding for capital projects, but **excluding** any appropriation made for the following: specific grants, enterprise funds, tuition and tuition-related charges at Montgomery College, and the Washington Suburban Sanitary Commission.

The components of the AOB are referred to as "tax supported" budgets, as opposed to the other components, which are not funded by County taxes. The so-called "tax supported" budgets are not funded

⁵ The Council approves the final calculation of the Charter limit when it sets the tax rates and credit amount in May or June of each year.

exclusively by taxes; non-tax sources of funding for “tax supported” budgets include state and federal aid, interest income, and some user fees.

In setting the ceiling on the AOB, the Council is trying to set a maximum on the amount the Council will approve in May based on how much the Council thinks in February the County’s residents can afford in the following fiscal year. Whatever AOB the Council sets will result in tax burdens that are more affordable for some residents and less affordable for others. The spirit of the spending affordability guidelines is to ensure that the tax burden on residents generally is affordable.

The effect of establishing this guideline is to establish an amount above which a supermajority of Councilmembers must support any aggregate operating budget approved.

- The affirmative votes of a majority of Councilmembers is all that is required to approve an AOB that exceeds the previous year’s AOB by less than the rate of inflation and does not exceed any spending affordability guideline then in place.
- The affirmative votes of six Councilmembers is required to approve an AOB that exceeds the previous year’s AOB by more than the rate of inflation but does not exceed any spending affordability guideline then in place. Under the Charter, any AOB that exceeds the previous year’s AOB by more than the rate of inflation (to wit, 1.65%) requires the affirmative votes of six Councilmembers.
- The affirmative votes of seven Councilmembers are required to approve an AOB that exceeds the ceiling on the AOB established by the Council.

Neither the Charter nor the Code specifies how to set the ceiling on the AOB. Until FY09, the ceiling was set using revenue projections based on current tax rates. This approach implied an assumption that a budget funded by taxes at current rates was “affordable.”

In the last six fiscal years, the Council has not used projected resources as a basis for establishing this spending affordability guideline. During that period, the Council has taken five different approaches:

- In FY10, the ceiling on the AOB was set at 5.9% of personal income (4.7% increase above FY09 approved AOB).
- In FY11, the ceiling on the AOB was set at the FY10 approved AOB (no change from FY10 approved AOB).
- In FY12, the ceiling on the AOB was set at the FY11 approved AOB plus inflation (1.7% increase above FY11 approved AOB).
- In FY13, the ceiling on the AOB was set at the FY12 approved AOB plus the year-over-year increase in personal income (4.8% increase above FY12 approved AOB).
- In FY14 and FY15, the ceiling on the AOB was set at the FY13 approved AOB plus the year-over-year increase in personal income, plus any additional increases in State aid to MCPS and Montgomery College.

As the recent history indicates, there are multiple rational approaches to setting the ceiling on the AOB. Council Staff presents three potential options for FY16 on © 1:

- Under Option #1, the AOB ceiling is held at the level of the FY15 approved AOB (no change).
- Under Option #2, the AOB increases (FY15 to FY16) by 1.65%, the average monthly estimated rate of inflation for the 12-month period through November 2014.
- Under Option #3, AOB increases by 2.30%, the estimated increase in Total Personal Income for the 12 month period through November 2014.

(b) Recommendation

Staff recommends establishing a ceiling on the AOB at an amount equal to the estimated increase in Personal Income for the 12-month period ending November 2014 (Option #3). Using this recommendation, the ceiling on the AOB would be set at \$4,453.9 million, 2.30% above the FY15 AOB.

3. Allocation of the AOB among the following: debt service; current revenue funding for the capital budget; retiree health insurance pre-funding (OPEB); and operating expenses for MCPS, Montgomery College, County Government, and M-NCPPC.

(a) Background

The County Code requires the Council to set agency (and non-agency) allocations as part of the SAG process. However, these allocations are not predictions of the actual budgets. It is through the budget process that the Council considers competing demands, establishes priorities, and allocates resources. Actual allocations will be determined during the Council's budget process in April and May.

The SAG allocations that the Council approves are not the final allocations that the Council will approve in May. At least three factors could change the allocations by then:

- Factor #1: Revenue estimates could be revised up or down from the December 2014 Fiscal Plan Update.
- Factor #2: Some of the current revenue funding and the pre-funding for OPEB from the Fiscal Plan Update could be shifted to the agency allocations.
- Factor #3: After reviewing each agency's request and considering the Council's priorities for the many and varied services the agencies provide, the Council may decide that different agencies should have a different percentage change from FY15.

No supermajority requirement is triggered if the Council, in approving the budget, allocates either more or less to any agency or non-agency category than was allocated through the SAG process. The only requirement triggered by this guideline affects the agencies rather than the Council—under County Code §20-63, any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions (non-recommended

cuts) that would be necessary to comply with the adopted budget allocation and a summary of the effect of those cuts on the agency's program.

Because State Aid amounts are not known in January, the proposed resolution also includes the following provision:

- b) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).*

(b) Recommendations

Debt Service

Debt service is a fixed charge that must be paid before making the allocation of any resources to the four agencies. Long-term leases are included, since these payments are virtually identical to debt. Debt service is in the County Government's debt service fund and also in the budget for M-NCPPC. **The amount of debt service next year should be based on the amount of debt currently outstanding and estimated to be issued, \$369.4 million, consistent with the December 2014 Fiscal Plan Update.** That figure includes \$363.8 million for County debt service and \$5.6 million for M-NCPPC debt service.

Current Revenue Funding for the Capital Budget

There are two types of current revenue funding for the capital budget. One type is funding for capital projects that do not meet the criteria for bond funding and must be funded with current revenue, or not funded at all. **Council Staff recommends \$73.7 million, consistent with the December 2014 Fiscal Plan Update.**

The other type is referred to as "PAYGO from Current Revenue for Bond Offset" (pay as you go). PAYGO is funding for projects that are eligible for bond funding but for which the Council has decided to use current revenue to decrease the need for bonds. The substitution of current revenue for bonds helps protect Montgomery County's AAA bond rating by reducing indebtedness and decreasing future operating budget expenses for debt service. **Council Staff recommends \$32.5 million, consistent with the December 2014 Fiscal Plan Update.**

Retiree Health Insurance Pre-funding (OPEB)

Council Staff recommends allocating \$123.4 million to OPEB, consistent with the December 2014 Fiscal Plan Update.⁶ That figure includes \$82.8 million for MCPS, \$2.0 million for Montgomery College, \$37.0 million for County Government, and \$1.5 million for M-NCPPC.

Agency Allocations (County Government, MCPS, Montgomery College, and M-NCPPC)

As noted above, any agency requesting more than the Council's spending affordability guidelines must submit to the Council by March 31 prioritized expenditure reductions that would be necessary to comply with the adopted budget allocation and a summary of the effect on the agency's program of the

⁶ For purposes of setting the Council's spending affordability guidelines, OPEB contributions (MCPS, Montgomery College, Montgomery County Government, and M-NCPPC) are treated as non-agency allocations, similar to debt service.

recommended prioritization. However, Staff recommends that the resolution for FY16—as was the case for FY14 and FY15—should state that a projected increase in State aid should not, by itself, trigger this requirement.

Staff recommends allocations to MCPS and Montgomery College at maintenance of effort levels, including formula funding for State aid. The allocation of aggregate operating budget to MCPS (\$2,130.7 million) includes the local contribution, local contribution to MCPS retirement, and State aid.⁷ The allocation of aggregate operating budget to Montgomery College is \$160.9 million. It may be necessary to revise Montgomery College’s allocation after further review of assumed FY16 tuition and non-tuition revenue.

The Board of Education submitted testimony explaining why the Superintendent may have recommended a budget in excess of Maintenance of Effort and potential reasons why the Board of Education might approve such a budget. However, in setting the spending affordability guideline, the Council is not approving a budget for MCPS, establishing a target for the budget that it will ultimately approve in May, or incorporating the Superintendent’s budget request. The “agency allocation” that is set as part of the spending affordability process simply sets a number of which any agency request must be followed (by March 31) with a list of non-recommended cuts.

In recent years, the Council has established an agency allocation for MCPS that is set at maintenance of effort. Whether that number is \$2,130.7 million or \$2,134.6 million (as in the December Fiscal Plan Update), the actual budget request is likely to exceed the spending affordability guideline for allocation to MCPS. The Board would have to cut more than \$100 million from the Superintendent’s recommended budget to get back down to MOE, or the Council would have to change its practice of setting the spending affordability guidelines for MCPS (and possibly also Montgomery College) at an amount that represents a reasonable December/January estimate of MOE. Staff thinks that the former is unlikely and the latter is inadvisable.

Staff recommends allocating the remainder to County Government and M-NCPPC in proportion to their FY15 allocations. Under Option #3, the allocation to Montgomery County Government is \$1,446.8 million and the allocation to M-NCPPC is \$116.5 million.

4. Overall Spending Target for Community Grants (prepared by Council Grants Manager)

(a) Background

For the last 7 years, the County Council has set an overall spending target for Community Grants as part of its actions establishing spending affordability guidelines for the operating budget. While the target is not binding, it assists the Council in budget planning. For FY15, the target set by the Council was \$6.8 million. In May 2014, the Council approved \$2.5 million in Council Community Grants that had gone through the Council’s grants process and \$5.5 million in Executive-recommended Community Grants, for a total of \$8.0 million.

⁷ The proposed MCPS allocation assumes no appropriated fund balance, and assumes state aid equal to FY15. The components of that calculation are FY15 Current Fund Local Contribution \$1,437,589,000; FY16 Increase in local contribution for MOE \$25,685,811; Local contribution for State Retirement \$44,356,785; Total State Aid \$618,765,933; Fund balance \$0; Other revenue \$4,344,541. If the Committee wishes to increase the State Aid or include appropriated fund balance in the FY16 allocation, then the effect would be to reduce the allocations to MCG and M-NCPPC, thereby increasing the likelihood that those two agencies will need to transmit a list of non-recommended cuts to the Council by March 31.

(b) Recommendation

Set an overall target for Council and Executive Community Grants of \$8.0 million. This is the same overall level of funding for Community Grants as the Council approved last spring for the FY15 budget. In addition, a Council Committee reviewed and approved an additional \$0.5 million for applications from organizations that are part of Montgomery Cares (for a combined total of \$8.5 million).

Should Councilmembers prefer an alternative approach, it can be discussed at the January 29, 2015 Government Operations and Fiscal Policy Committee meeting.

Proposed language for the Council Resolution on spending affordability guidelines would state:

“The Council’s intent is that \$xxx million of the County Government’s allocation will be appropriated for Community Grants (this amount excludes Community Service Grants).”

Schedule:

January 13	Introduction
January 27	Public hearing
January 29	GO
February 10	Council Action

Contents:

©	Item
1	Council Staff’s calculations
2-4	FY16 SAG Resolution
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7-9	FY15 Aggregate Operating Budget
10-14	Economic Outlook Slides (Finance)Resolution
15-16	State spending affordability economic outlook
17-18	Testimony of Board of Education

FY15 Approved AOB=\$4,353,574,409

\$4,353.6

	A	B	C	D	E	F
1	Table 1: Spending Affordability Guideline 2 (Ceiling on the FY15 AOB, \$millions)					
2	<i>FY15 Approved AOB</i>	4,353.6		Option 1	Option 2	Option 3
3	1. No change FY15 to FY16			+0.00%		
4	2. Inflation CY14				+1.65%	
5	3. Change in personal income CY 14					+2.30%
6	Ceiling on FY15 AOB			\$4,353.6	\$4,425.4	\$4,453.9
7						
8	Table 2: Spending Affordability Guideline 3 (Allocation of FY15 AOB, \$millions)					
9		FY15 App		Option 1	Option 2	Option 3
10	A. Non agency allocations					
11	Debt service					
12	County debt service	\$338.7		\$363.8	\$363.8	\$363.8
13	MNCPPC debt service	5.4		5.6	5.6	5.6
14	Current revenue, specific projects	49.4		73.7	73.7	73.7
15	Current revenue, PAYGO	30.0		32.5	32.5	32.5
16	Retiree health insurance prefunding (OPEB)					
17	OPEB for MCPS	85.5		82.8	82.8	82.8
18	OPEB for Montgomery College	2.0		2.0	2.0	2.0
19	OPEB for County Government	38.6		37.0	37.0	37.0
20	OPEB for MNCPPC	1.8		1.5	1.5	1.5
21	Subtotal, non-agencies	551.3		598.9	598.9	598.9
22						
23	B. Agency allocations					
24		FY15 App	% agency total	Option 1	Option 2	Option 3
25	MCPS*	2,138.1	56.2%	2,130.7	2,130.7	2,130.7
26	College excl. expen. funded by tuition	162.3	4.3%	160.9	160.9	160.9
27	County Government	1,390.0	36.6%	1,354.0	1,420.4	1,446.8
28	MNCPPC	111.9	2.9%	109.0	114.4	116.5
29	Subtotal, agencies	3,802.3	100%	3,754.7	3,826.5	3,855.0
30	Aggregate Operating Budget	4,353.6		4,353.6	4,425.4	4,453.9
31	Table 3: Change in Agency Allocations, FY15 approved to FY16 recommended					
32				Option 1	Option 2	Option 3
33	MCPS			(0.34%)	(0.34%)	(0.34%)
34	College excl. expen. funded by tuition			(0.85%)	(0.85%)	(0.85%)
35	County Government			(2.59%)	+2.19%	+4.09%
36	MNCPPC			(2.59%)	+2.19%	+4.09%
37	Total Agency Allocation			(1.25%)	+0.64%	+1.39%

*Note that based upon this proposal, the spending affordability guideline allocation to MCPS would fall year over year even though the SAG analysis assumes a budget that meets maintenance of effort. The calculation below assumes level state aid (MCPS projected an increase in state aid, though state aid could also decrease from FY15 to FY16), and \$0 of appropriated fund balance used to fund the FY16 budget. Certain excludable one-time expenditures made in FY15 are also excluded when calculating the allocation at MOE.

FY15 Current Fund Local Contribution	\$1,437,589,000
FY16 Increase in local contribution for MOE	\$25,685,811
Local contribution for State Retirement	\$44,356,785
Total State Aid	\$618,765,933
Fund balance	\$-
Other revenue	\$4,344,541
MCPS Aggregate Operating Budget at MOE	\$2,130,742,070

Resolution No.: _____
Introduced: _____
Adopted: _____

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Spending Affordability Guidelines for the FY16 Operating Budget

Background

1. Section 305 of the Charter and Chapter 20-60 of the County Code require the Council to set spending affordability guidelines for the operating budget for the next fiscal year.
2. The guidelines must specify:
 - a) A ceiling on property tax revenues, which are used to fund the aggregate operating budget.
 - b) A ceiling on the aggregate operating budget. The aggregate operating budget is the total appropriation from current operating revenues, including appropriations for capital projects but excluding appropriations for: enterprise funds, the Washington Suburban Sanitary Commission, specific grants for which the spending is contingent on the grants, and expenditures equal to the estimated tuition and tuition-related charges at Montgomery College.
 - c) The spending allocations for the County Government, the Board of Education, Montgomery College, the Maryland-National Capital Park and Planning Commission, debt service, and current revenue funding of capital projects. As noted above, the College's allocation excludes expenditures equal to the estimated tuition and tuition-related charges.
3. Chapter 20-61 of the County Code lists a number of economic and financial factors to be considered in adopting the guidelines, requires a public hearing before the Council adopts guidelines, and requires that the Council adopt guidelines no later than the second Tuesday in February for the fiscal year starting the following July 1.

4. At the public hearing on January 27, 2015, the public had the opportunity to comment on the following guidelines.

- a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
- b) The proposed ceiling on the aggregate operating budget and the agency allocations in millions of dollars are:

Debt Service	\$ 369.4
Current revenue, specific projects	\$ 73.7
Current revenue, PAYGO	\$ 32.5
Retiree health insurance prefunding	\$ 123.4
MCPS	\$2,130.7
Montgomery College	\$ 160.9
County Government	\$1,446.2
M-NCPPC	\$ 116.5
Total = Aggregate Operating Budget	\$4,453.9

Action

The County Council for Montgomery County approves the following resolution:

1. The spending affordability guidelines for the FY16 Operating Budget are:
 - a) The amount of property tax revenue will not exceed the amount calculated in accordance with §305 of the Charter that would require nine affirmative votes.
 - b) The ceiling on the aggregate operating budget and the agency spending allocations in **millions** of dollars are:

Debt Service	\$
Current revenue, specific projects	\$
Current revenue, PAYGO	\$
Retiree health insurance prefunding	\$
MCPS	\$
Montgomery College	\$
County Government	\$
M-NCPPC	\$
Total = Aggregate Operating Budget	\$

- c) Notwithstanding the above, the Council intends that any agency spending allocations which, as a result of additional increases in State aid, exceed the ceilings specified in (b) do not trigger the requirements of §20-63(b).
- 2. The Council's intent is that \$8.0 million of the County Government's allocation will be appropriated for Community Grants (this amount excludes Community Service Grants).

This is a correct copy of Council action.

Linda M. Lauer, Clerk of the Council

Fiscal Plan December 2014 Tax Supported Fiscal Plan Summary

(\$ in Millions)															
	App FY15 5-22-14	Est FY15 12-9-14	% Chg. FY15-16 App/Proj	% Chg. FY15-16 Est/Proj	Projected FY16 12-9-14	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21
Total Revenues															
1 Property Tax (less PDs)	1,538.9	1,535.7	2.3%	2.5%	1,574.8	2.7%	1,616.8	2.9%	1,662.9	3.1%	1,715.2	3.4%	1,772.7	3.1%	1,828.0
2 Income Tax	1,340.6	1,325.7	1.1%	2.2%	1,355.5	11.9%	1,516.5	5.3%	1,597.5	4.2%	1,665.4	3.4%	1,722.0	3.2%	1,776.4
3 Transfer/Recordation Tax	160.7	138.7	-6.2%	9.9%	152.4	9.5%	166.9	2.4%	170.9	4.7%	178.9	3.2%	184.6	4.5%	192.9
4 Investment Income	0.5	0.5	153.4%	153.4%	1.3	49.4%	2.0	43.6%	2.8	39.5%	4.0	29.9%	5.2	0.0%	5.2
5 Other Taxes	277.7	277.0	1.0%	1.2%	280.4	1.3%	284.0	1.8%	288.9	1.6%	293.4	1.5%	297.8	1.1%	301.1
6 Other Revenues	955.8	955.8	-1.4%	-1.4%	942.8	0.3%	945.9	0.4%	949.3	0.4%	952.9	0.4%	956.8	0.4%	960.9
7 Total Revenues	4,274.3	4,233.5	0.8%	1.7%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
8															
9 Net Transfers In (Out)	43.3	43.3	-21.5%	-21.5%	34.0	1.9%	34.8	2.0%	35.3	2.2%	36.1	2.3%	37.0	2.4%	37.9
10 Total Revenues and Transfers Available	4,317.6	4,276.8	0.5%	1.5%	4,341.3	5.2%	4,566.7	3.1%	4,707.7	2.9%	4,845.9	2.7%	4,976.0	2.5%	5,102.2
11															
12 Non-Operating Budget Use of Revenues															
13 Debt Service	344.1	344.1	7.3%	7.3%	369.4	5.7%	390.4	1.4%	395.8	3.9%	411.3	3.6%	426.2	0.0%	426.2
14 PAYGO	30.0	30.0	8.3%	8.3%	32.5	0.8%	32.7	1.5%	33.2	0.0%	33.2	0.0%	33.2	0.0%	33.2
15 CIP Current Revenue	49.4	49.4	49.3%	49.3%	73.7	-6.9%	68.6	5.1%	72.1	8.3%	78.0	-0.1%	78.0	0.0%	78.0
16 Change in Montgomery College Reserves	-7.6	-7.6	100.0%	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
17 Change in MNCPPC Reserves	-4.6	-4.6	102.4%	102.4%	0.1	0.4%	0.1	9.0%	0.1	13.4%	0.1	9.8%	0.2	-2.6%	0.1
18 Change in MCPS Reserves	-38.2	-38.2	100.0%	100.0%	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0	n/a	0.0
19 Change in MCG Special Fund Reserves	1.6	1.6	-100.7%	-100.7%	0.0	249.8%	0.0	178.6%	0.0	-41.0%	0.0	-4.2%	0.0	-8.6%	0.0
20 Contribution to General Fund Undesignated Reserves	-92.2	-147.8	157.6%	135.9%	53.1	-92.9%	3.8	178.6%	10.5	-41.0%	6.2	-4.2%	5.9	-8.6%	5.4
21 Contribution to Revenue Stabilization Reserves	22.6	22.4	-0.3%	0.6%	22.6	5.5%	23.8	2.9%	24.5	2.8%	25.2	-29.2%	17.8	-56.9%	7.7
22 Retiree Health Insurance Pre-Funding	127.8	127.8	-3.5%	-3.5%	123.4	-0.4%	122.9	0.0%	123.0	-4.3%	117.6	-4.4%	112.5	0.0%	112.5
23 Set Aside for other uses (supplemental appropriations)	0.1	15.1	1590.0%	32.2%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0	0.0%	20.0
24 Total Other Uses of Resources	433.1	392.3	60.4%	77.1%	694.7	-4.6%	662.4	2.5%	679.2	1.9%	691.8	0.3%	693.8	-1.5%	683.1
25 Available to Allocate to Agencies (Total Revenues+Net Transfers-Total Other Uses)	3,884.5	3,884.5	-6.1%	-6.1%	3,646.6	7.1%	3,904.3	3.2%	4,028.5	3.1%	4,154.2	3.1%	4,282.2	3.2%	4,419.0
26															
27 Agency Uses															
28															
29 Montgomery County Public Schools (MCPS)	2,138.1	2,138.1	-0.2%	-0.2%	2,134.6										
30 Montgomery College (MC)	244.5	244.5	-2.5%	-2.5%	238.4										
31 MNCPPC (w/o Debt Service)	111.9	111.9	-15.2%	-15.2%	94.9										
32 MCG	1,390.0	1,390.0	-15.2%	-15.2%	1,178.6										
33 Agency Uses	3,884.5	3,884.5	-6.1%	-6.1%	3,646.6	7.1%	3,904.3	3.2%	4,028.5	3.1%	4,154.2	3.1%	4,282.2	3.2%	4,419.0
34 Total Uses	4,317.6	4,276.8	0.5%	1.5%	4,341.3	5.2%	4,566.7	3.1%	4,707.7	2.9%	4,845.9	2.7%	4,976.0	2.5%	5,102.2
35 (Gap)/Available	0.0	0.0			0.0		0.0		0.0		0.0		0.0		0.0

Assumptions:

1. Property taxes are at the Charter Limit with a \$692 credit. Other taxes are at current rates.
2. Reserve contributions are at the policy level and consistent with legal requirements.
3. PAYGO, debt service, and current revenue reflect the Approved FY15-20 Capital Improvements Program.
4. Retiree health insurance Annual Required Contribution for pre-funding is fully funded.
5. State Aid, including MCPS and Montgomery College, is not projected to increase in FY16-21.
6. Projected FY16 allocations for MCPS and Montgomery College assume County funding at maintenance of effort. The allocations do not include potential increases to State Aid or other possible agency resources, such as use of additional fund balance. Additional State Aid or use of fund balance would increase the rate of growth for MCPS and Montgomery College.

5

Fiscal Plan December 2014 Tax Supported Fiscal Plan Summary

(\$ in Millions)

	App. FY15	Est FY15	% Chg. FY15-16	% Chg. FY15-16	Projected FY16	% Chg. FY16-17	Projected FY17	% Chg. FY17-18	Projected FY18	% Chg. FY18-19	Projected FY19	% Chg. FY19-20	Projected FY20	% Chg. FY20-21	Projected FY21
Beginning Reserves															
Unrestricted General Fund	241.5	241.5	-61.2%	-61.2%	93.7	56.6%	146.8	2.6%	150.5	7.0%	161.0	3.8%	167.2	3.5%	173.1
Revenue Stabilization Fund	207.2	207.2	10.9%	10.9%	229.8	9.8%	252.4	9.4%	276.2	8.9%	300.7	8.4%	325.9	5.5%	343.7
Total Reserves	448.7	448.7	-27.9%	-27.9%	323.5	23.4%	399.2	6.9%	426.7	8.2%	461.7	6.8%	493.1	4.8%	516.9
Additions to Reserves															
Unrestricted General Fund	-92.2	-147.8	157.6%	135.9%	53.1	-92.9%	3.8	178.6%	10.5	-41.0%	6.2	-4.2%	5.9	-8.6%	5.4
Revenue Stabilization Fund	22.6	22.4	-0.3%	0.6%	22.6	5.5%	23.8	2.9%	24.5	2.8%	25.2	-29.2%	17.8	-56.9%	7.7
Total Change in Reserves	-69.6	-125.4	208.7%	160.3%	75.6	-63.6%	27.6	26.9%	35.0	-10.3%	31.4	-24.3%	23.8	-44.8%	13.1
Ending Reserves															
Unrestricted General Fund	149.3	93.7	-1.7%	56.6%	146.8	2.6%	150.5	7.0%	161.0	3.8%	167.2	3.5%	173.1	3.1%	178.6
Revenue Stabilization Fund	229.8	229.6	9.8%	9.9%	252.4	9.4%	276.2	8.9%	300.7	8.4%	325.9	5.5%	343.7	2.2%	351.4
Total Reserves	379.1	323.3	5.3%	23.5%	399.2	6.9%	426.7	8.2%	461.7	6.8%	493.1	4.8%	516.9	2.5%	530.0
Reserves as a % of Adjusted Governmental Revenues	8.4%	7.2%			8.8%		9.0%		9.4%		9.8%		10.0%		10.0%
Other Reserves															
Montgomery College	4.6	4.6	0.0%	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6	0.0%	4.6
M-NCPPC	4.1	4.1	2.7%	2.7%	4.2	2.6%	4.3	2.8%	4.5	3.1%	4.6	3.3%	4.7	3.1%	4.9
MCPS	0.1	0.1	0.0%	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1	0.0%	0.1
MCG Special Funds	0.6	0.6	-1.7%	-1.7%	0.6	2.6%	0.6	7.0%	0.7	3.8%	0.7	3.5%	0.7	3.1%	0.7
MCG + Agency Reserves as a % of Adjusted Govt Revenues	8.6%	7.4%			9.0%		9.2%		9.6%		10.0%		10.2%		10.2%
Retiree Health Insurance Pre-Funding															
Montgomery County Public Schools (MCPS)	85.5	85.5			82.8		85.1		87.2		84.6		81.9		81.9
Montgomery College (MC)	2.0	2.0			2.0		2.0		2.0		1.9		1.9		1.9
MNCPPC	1.8	1.8			1.5		1.0		0.7		0.3		0.0		0.0
MCG	38.6	38.6			37.0		34.9		33.1		30.8		28.6		28.6
Subtotal Retiree Health Insurance Pre-Funding	127.8	127.8			123.4		122.9		123.0		117.6		112.5		112.5
Adjusted Governmental Revenues															
Total Tax Supported Revenues	4,274.3	4,233.5	0.8%	1.7%	4,307.3	5.2%	4,532.0	3.1%	4,672.4	2.9%	4,809.8	2.7%	4,939.1	2.5%	5,064.3
Capital Projects Fund	123.4	123.4	1.9%	1.9%	125.7	-19.8%	100.8	-5.8%	94.9	-4.4%	90.8	3.8%	94.3	0.0%	94.3
Grants	116.6	116.6	2.2%	2.2%	119.2	2.5%	122.2	2.6%	125.4	2.4%	128.5	2.3%	131.4	2.3%	134.4
Total Adjusted Governmental Revenues	4,514.3	4,473.5	0.8%	1.8%	4,552.2	4.5%	4,755.1	2.9%	4,892.8	2.8%	5,029.1	2.7%	5,164.8	2.6%	5,293.0

6

Resolution No.:	<u>17-1116</u>
Introduced:	<u>May 22, 2014</u>
Adopted:	<u>May 22, 2014</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

By: County Council

SUBJECT: Approval of the FY 2015 Aggregate Operating Budget

Background

1. Section 305 of the County Charter requires the affirmative vote of 7 Councilmembers to approve the aggregate operating budget if that budget exceeds the adopted spending affordability guidelines then in effect. Section 305 excludes from the aggregate operating budget:
 - Specific grants;
 - Enterprise Funds;
 - Tuition and tuition-related charges at Montgomery College;
 - Washington Suburban Sanitary Commission.
2. Section 20-60 of the County Code requires the Council to set spending affordability guidelines by resolution no later than the second Tuesday in February. The guidelines must specify a ceiling on the aggregate operating budget for FY 2015.
3. Section 305 of the Charter requires that at least 6 Councilmembers must approve the aggregate operating budget if that budget exceeds the budget for the preceding year by more than the rate of inflation, as measured by the annual average increase in the Consumer Price Index for all urban consumers in the Washington-Baltimore Metropolitan area for the 12-month period preceding December 1, which was 1.50% percent for the 12-month period preceding December 1, 2013.
4. On May 23, 2013, in Resolution 17-767, the Council approved the FY 2014 aggregate operating budget in the amount of \$4,192,987,481. If that aggregate operating budget increased at the 1.50% percent rate of inflation for the 12-month period preceding December 1, 2013, it would be \$4,255,882,293.

5. In Resolution No. 17-1005, adopted February 11, 2014, the Council adopted the following spending affordability guideline for the FY 2015 aggregate operating budget.

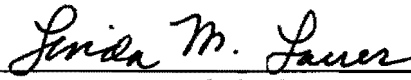
- FY 2015 ceiling on the aggregate operating budget \$4,268.3 million

Action

The County Council for Montgomery County, Maryland approves the following resolution:

The Council approves the FY 2015 aggregate operating budget in the amount of \$4,353,574,409, as calculated on the attached page. Because the FY 2015 aggregate operating budget exceeds the FY 2014 aggregate operating budget as increased for inflation of \$4,255,882,293; 7 affirmative votes are required to adopt this resolution.

This is a correct copy of Council action.



Linda M. Lauer, Clerk of the Council

The FY 2015 aggregate operating budget excludes enterprise funds, specific grants, and tuition and tuition-related charges at the College and it is calculated as follows.

Fund or District	Appropriation
General Fund	1,129,671,987
Fire District	224,302,381
Economic Development Fund	1,850,567
Mass Transit	121,172,193
Recreation District	30,305,126
Urban District	8,741,302
Montgomery County Public Schools	2,138,069,401
Montgomery College	244,520,455
Maryland-National Park and Planning Commission:	
Administration Fund	28,709,985
Park Fund	85,027,201
Debt Service on County Bonds and Leases	338,694,190
Debt Service on Park Bonds	5,425,598
Current Revenue for the Capital Budget	49,355,907
Current Revenue for PAYGO	29,950,000
Total Appropriations	4,435,796,293
Less College Tuition and Tuition-Related Charges	(82,221,884)
FY 2015 AGGREGATE OPERATING BUDGET	4,353,574,409
SUMMARY:	
Montgomery County Public Schools	2,138,069,401
Montgomery College Total	244,520,455
County Government	1,389,985,076
Maryland-National Park and Planning Commission	111,947,772
Retiree Health Insurance Pre-Funding	127,847,894
Debt Service on County Bonds and Park Bonds	344,119,788
Current Revenue and PAYGO for Capital Budget	79,305,907
TOTAL APPROPRIATIONS	4,435,796,293
Less College Tuition and Tuition-Related Charges	(82,221,884)
FY 2015 AGGREGATE OPERATING BUDGET	4,353,574,409
Aggregate Operating Budget for FY 2014	4,192,987,481
\$ increase	160,586,928
% change	3.83%
Inflation in prior calendar year	1.50%
FY2014 Aggregate Operating Budget + inflation	4,255,882,293

ECONOMIC OUTLOOK - SUMMARY

MC Department of Finance December 2014 Economic and Revenue Update

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Economic Recovery vs. Fiscal Recovery

- While some economic indicators can point to recovery in certain tax revenues, some revenues, such as the income tax, transfer/recording taxes, and the fuel-energy tax are estimated to decline from the previous fiscal year either because of rate cuts (fuel-energy), sequestration and fiscal cliff attributed to federal government and tax policies enacted in CY13, and a decline in the real estate market.
- This can be due to adjustments in consumer behavior that affect capital gains and consumer spending attributed to a decline in wage and salary income in CY13.
- The recent length (last three cycles) of an economic recovery and expansion (e.g., from trough to peak) has averaged about 95 months according to the National Bureau of Economic Research.

MC Department of Finance December 2014 Economic and Revenue Update

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10

Signs of a Modest Economic Recovery

- A drop in unemployment rate from 5.2 percent in October 2013 to 4.3 percent in October 2014, a modest increase in resident employment estimated for CY14, and an estimated increase in wage and salary income in CY14 that follows a decline in CY13.
- The growth in the stock market to date (S&P 500 index up 11.9 percent as of November 28th).
- Home prices continue to increase albeit at a much lower rate compared to CY13.

MC Department of Finance December 2014 Economic and Revenue Update

(12)

Causes of Concern

- Pull backs in revenue estimates attributed to sequestration that may continue to dampen the growth rates in employment and in wage and salary income in Montgomery County compared to estimates prepared for the FY15 Budget.
- Inflation through September (↑1.7%) is running slightly higher than CY13 (↑1.5%) but below CY12 (↑2.2%).
- Home Sales are estimated to decline 7.0 percent in CY14 after increasing 13.0 percent in CY13.
- Fed funds rate expected to remain flat through most of CY15.

MC Department of Finance December 2014 Economic and Revenue Update

(13)

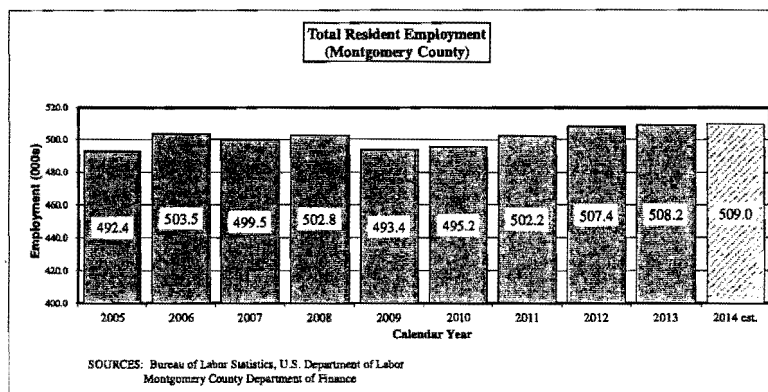
(11)

INFLATION	1.74% Jan.-Sept. 2014	Property Taxes	Key determinant of property tax revenues at the Charter Limit	2013: 1.52%	↔
UNEMPLOYMENT RATE	4.3% Oct. 2014	Income Taxes	Indicates overall health of the job market	5.2% Oct. 2013	↓
RESIDENT EMPLOYMENT	508,007 Oct. 2014	Income Taxes	Primary determinant of income tax receipts	504,493 Oct. 2013	↑
PAYROLL EMPLOYMENT (Estimated)	476,900 Oct. 2014	Income Taxes	Another determinant of income tax receipts	474,600 Oct. 2013	↑
STOCK MARKET - S&P 500	2,067.56 As of Nov. 28th	Income Taxes	Key determinant of capital gains portion of the income tax	December 31st: 2013: 1,848.36	↑
HOME SALES	888 Oct. 2014	Transfer/Recordation Taxes	Indicates activity affecting receipts	915 Oct. 2013	↓
HOME PRICES (Median Price Sold)	\$387,310 Oct. 2014	Transfer/Recordation Taxes	Taxes are based on values, affects amount of taxes collected	\$379,000 Oct. 2013	↑
FEDERAL FUNDS RATE	0.09% Oct. 2014	Investment Income	County's return on investments closely correlated with the Fed Fund rates	0.09% Oct. 2013	↔

MC Department of Finance December 2014 Economic and Revenue Update (14)

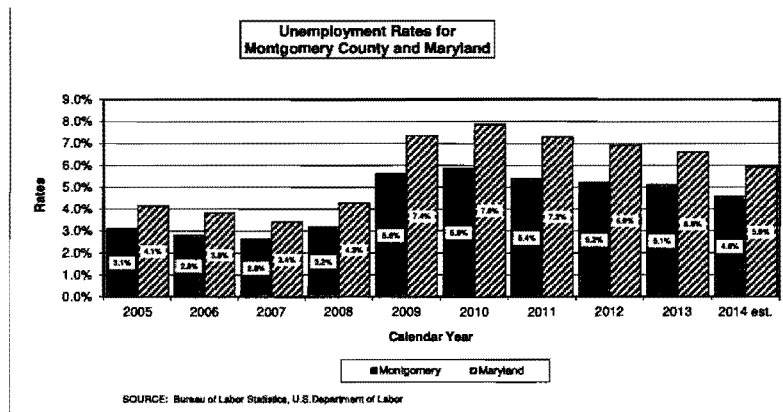
Department of Finance estimates that resident employment in Montgomery County will reach 509,000 in CY14 (↑0.2%) over CY13.

On a year-over-year basis, resident employment increased by over 3,500 from October 2013 to October of this year.



The Department of Finance estimates that the unemployment rate for Montgomery County will remain below 5.0 percent in CY14 compared to 5.1 percent in CY13.

The unemployment rate in October was 4.3 percent compared to 5.2 percent in October 2013.

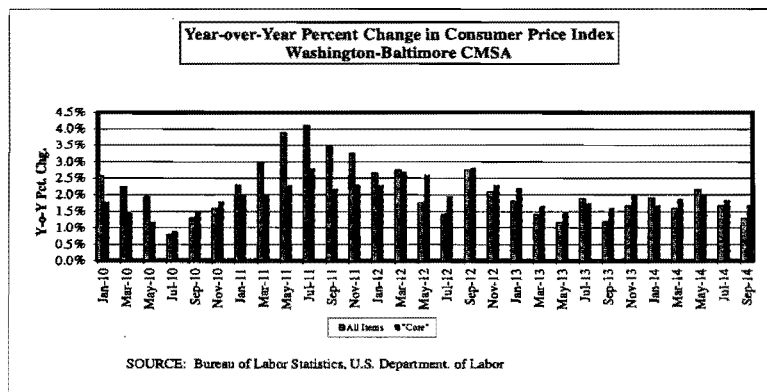


MC Department of Finance December 2014 Economic and Revenue Update

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The consumer price index (CPI) decelerated in September.

Overall for the Washington-Baltimore consolidated region, the CPI increased 1.7 percent in September '14 from September '13. For the calendar year 2013, the index increased 1.5 percent compared to 2.2 percent in CY12.



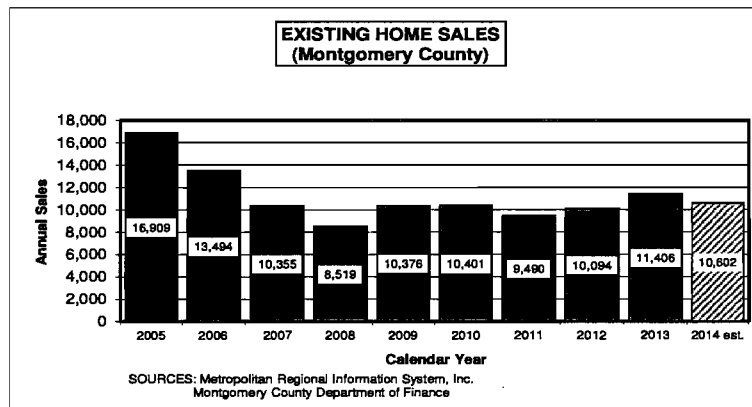
MC Department of Finance December 2014 Economic and Revenue Update

17

13

Home sales are estimated to decline 7.0 percent this year.

Total sales of existing homes increased 13.0 percent in CY13 compared to an increase of 6.4 percent in CY12.

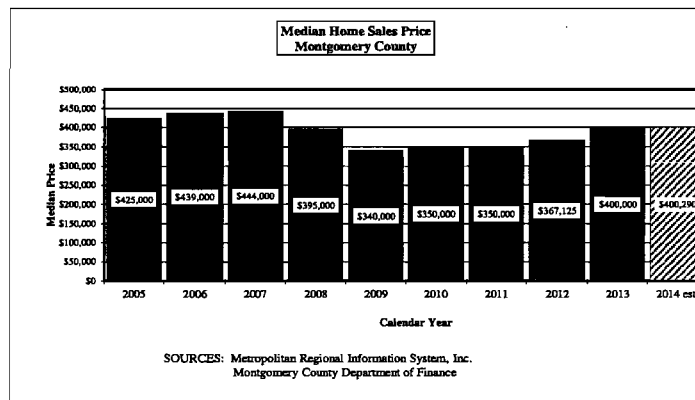


MC Department of Finance December 2014 Economic and Revenue Update

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Median home sales prices will increase in CY14 at a very low rate.

With the sales of existing homes in the County estimated to decline in 2014, the median sales price is estimated to increase a weak 0.07 percent, which follows an increase of 9.0 percent in CY13 and an increase of 4.9 percent in CY12.



MC Department of Finance December 2014 Economic and Revenue Update

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14

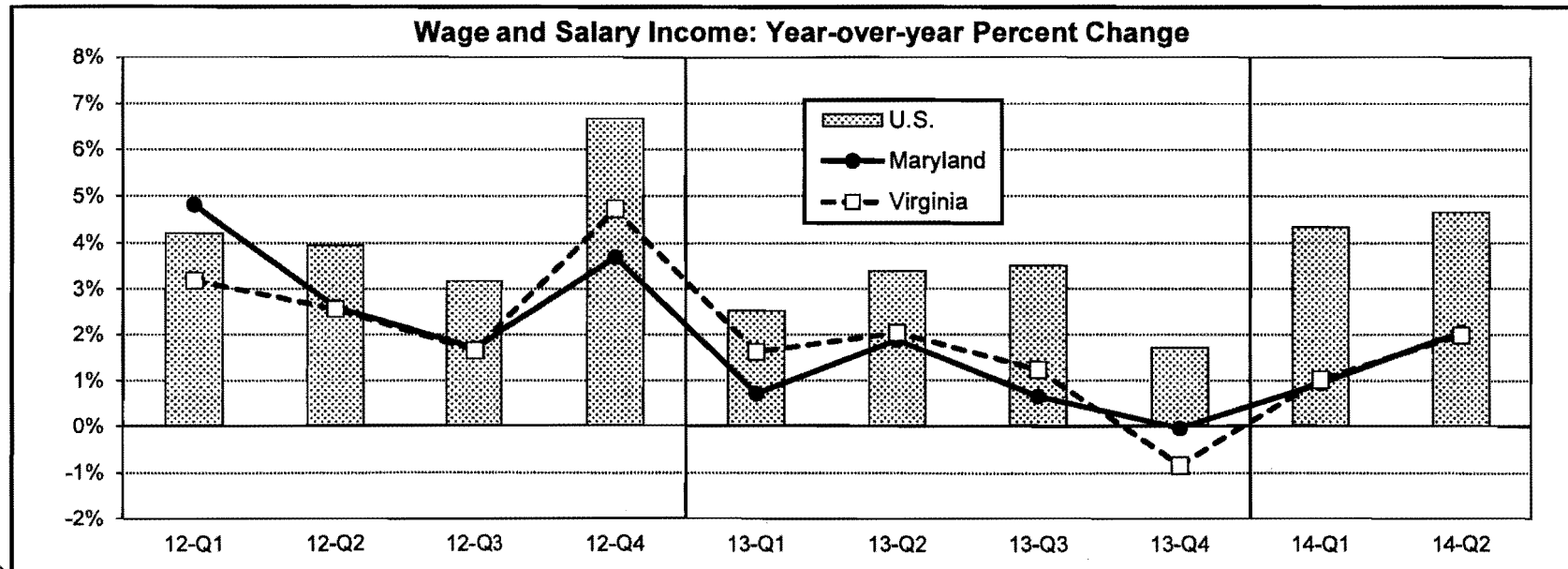
Maryland Economic Performance

Year-over-year Percent Change

<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Initial</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>UI Claims</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>
Jan-14	0.4%	0.4%	5.8%	-15.4%	1.1%	5.6%	-3.0%
Feb-14	0.3%	0.1%	5.6%	-15.3%	-0.2%	7.7%	-4.6%
Mar-14	0.5%	0.1%	5.6%	-22.4%	-4.8%	1.8%	-7.8%
Apr-14	1.0%		5.5%	-21.9%	-4.0%	-0.6%	-1.2%
May-14	0.5%		5.6%	-29.7%	-0.3%	0.4%	-3.4%
Jun-14	1.1%		5.8%	-15.1%	2.6%	-0.2%	8.3%
Jul-14	0.7%		6.1%	-33.3%	-3.4%	-2.8%	4.1%
Aug-14	0.5%		6.4%	-33.1%	0.5%	-0.4%	2.7%
Sep-14	0.6%		6.3%	-25.1%	5.2%	0.4%	10.2%
Oct-14					9.2%	-0.7%	

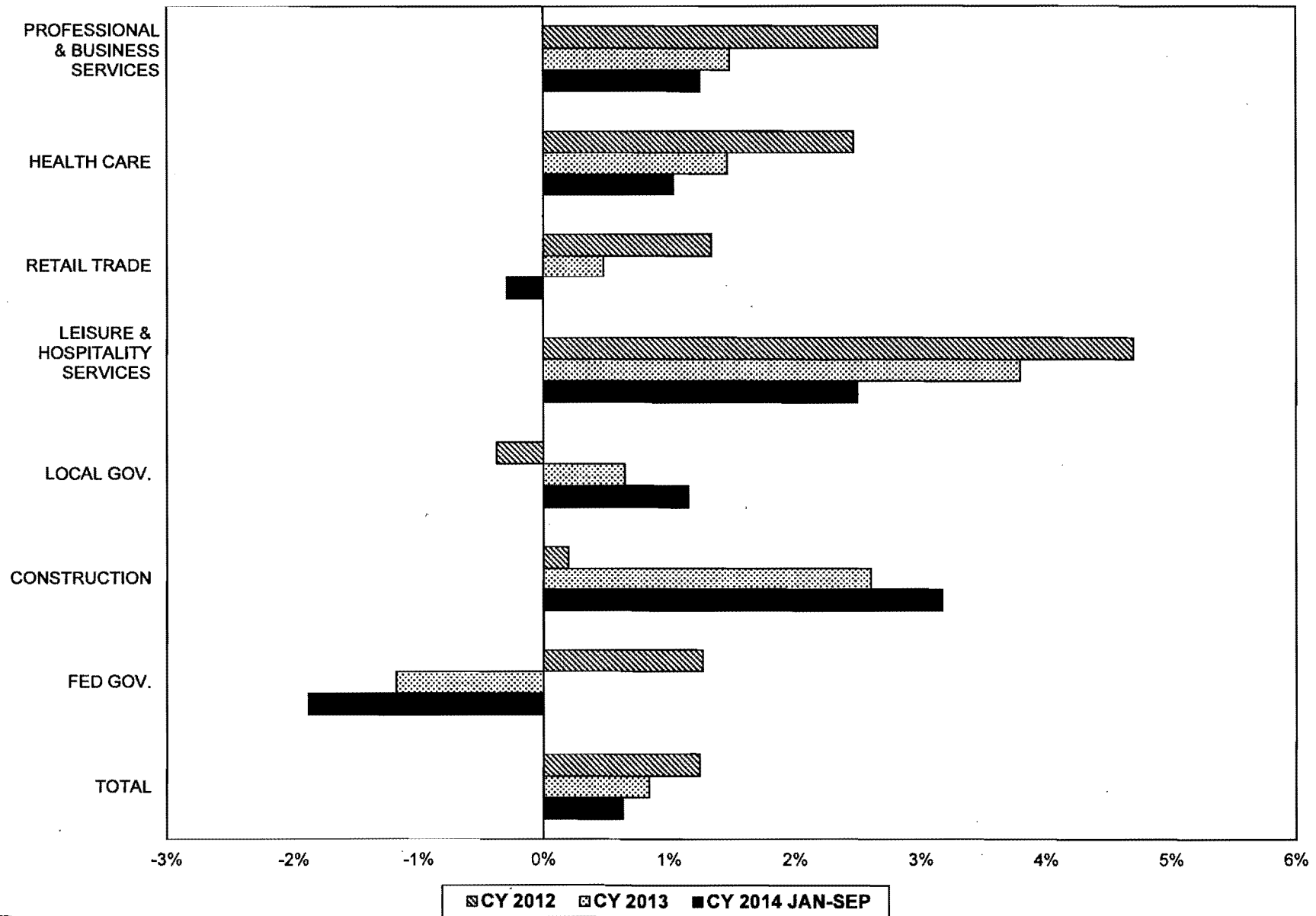
Note: The unemployment rate is based on seasonally adjusted data. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Analytics.

→ CES: Current Establishment Survey; QCEW: Quarterly Census of Employment and Wages; UI: unemployment insurance



Maryland Payroll Employment by Major Industries: Year-over-year Percent Change

2



Testimony of the Montgomery County Board of Education

**Public Hearing on the
Fiscal Year 2016 Operating Budget
Spending Affordability Guidelines**

Presented by Patricia B. O'Neill, President

January 27, 2015

Good afternoon, President Leventhal and members of the County Council. I am Patricia B. O'Neill, president of the Montgomery County Board of Education. Thank you for the opportunity to testify on behalf of the Board on the proposed Spending Affordability Guidelines for Fiscal Year (FY) 2016.

We look forward to working collaboratively with the Council in supporting the needs of our 154,000 students. The Board, the County Council, and the county executive have been and continue to be partners in the goal of providing a high quality education to all the children of our county. Several months ago, we worked together on a funding plan for the FY 2015 Operating Budget for Montgomery County Public Schools (MCPS), and I am confident we will do the same for FY 2016.

Dr. Joshua P. Starr's FY 2016 Recommended Operating Budget for MCPS was formulated using a budget process that increased both transparency and stakeholder involvement. Small teams consisting of principals, teachers, school-based and central office staff, parents, and students met to discuss the work of elementary, middle, and high schools and propose changes in the operating budget that are aligned with the three competencies in our Strategic Planning Framework: *Building Our Future Together*. The work of these school-level teams gave many individuals an opportunity to participate in the budget process and provide input to it. In addition, on January 5, 2015, MCPS established the OpenData MCPS website where detailed budget information now is available to the public, increasing our budget transparency even further.

The Board of Education adopted its FY 2016 Operating Budget Interests on September 9, 2014. These interests, along with the Strategic Planning Framework, guided the superintendent in developing his recommended budget.

The superintendent's FY 2016 Recommended Operating Budget represents the third year of a multi-year budget strategy to keep up with the dramatic growth in student enrollment and strategically invest in areas to close the achievement gap and prepare our students for success in the 21st century. Dr. Starr's budget includes an increase of \$103.6 million to fund the same level of services for the projected growth in the number of students, as well as previously negotiated agreements, rising costs in operations, and strategic enhancements. Other funding in the superintendent's budget is needed to restore one-time funding that was used by the Montgomery County Council to fund the FY 2015 Operating Budget.

As we work on the FY 2016 Operating Budget, we continue to see increases in the number of students who receive Free and Reduced-price Meals System services, who require special support as they are learning English as a second language, and who are students with disabilities.

The Board currently is reviewing the superintendent's FY 2016 Recommended Operating Budget. We held two public hearings earlier in January and heard testimony from approximately 50 individuals. The Board held an all-day work session on the FY 2016 Operating Budget on January 20, 2015. We will take action on the FY 2016 Operating Budget on February 10, 2015.

We are concerned that despite our projected growth of 2,600 students in FY 2016, the Council staff recommendation for MCPS in the agency allocations of the Spending Affordability Guidelines is \$7.4 (.3 percent) million less than our FY2015 tax-supported budget, while at the same time, recommending an increase of \$61.2 million (4.1 percent) for Montgomery County Government and the Maryland-National Capital Park and Planning Commission. This recommendation to decrease the MCPS agency allocation reflects neither any funding for the FY 2016 Operating Budget from MCPS' general fund balance nor any change in state aid.

While staff recommendations fail to account for an FY2015 fund balance being carried over into FY2016, by contrast, the superintendent's FY 2016 budget had included \$16 million of fund balance. Due to the results of the expenditure restrictions that were put in place on November 24, 2014, the fund balance now is estimated to be \$28 million and should be accounted for in our tax-supported budget. Additionally, this past Friday, we learned about Governor Hogan's FY2016 budget which, among other things, reduced funding for the Geographic Cost of Education Index for MCPS by almost \$17 million. While overall we will be receiving \$10.3million less than was assumed for state aid in the superintendent's FY 2016 Recommended Operating Budget, we will nevertheless receive an increase of \$4.9 million in FY2016 state revenue, an increase that we believe should be accounted for in setting Spending Affordability Guidelines. .

As the Council votes on the Spending Affordability Guidelines for FY 2016, please keep in mind the superintendent's Recommended FY 2016 Operating Budget and the needs of the school district. While we are seeing unprecedented growth in the number of students we serve and an increase in their needs we remain focused on our strategic efforts to close the achievement gap. We are committed to ensuring that the 154,000 students we serve can continue to receive the world class education that Montgomery County is known to deliver.

Thank you for the opportunity to participate in this public hearing. I welcome your questions.